

CITY OF ALAMEDA

Memorandum

To: Honorable Mayor and
Members of the City Council

From: Ann Marie Gallant
Interim City Manager

Date: March 2, 2010

Re: Approve the City of Alameda Investment Policy

BACKGROUND

The State of California Government Code Section 53646 requires the City Treasurer to submit to the City Council, at a public meeting, an Investment Policy for approval by the local governing authority.

DISCUSSION

The City's Investment Policy affirms the fiduciary responsibility to ensure establishment of adequate reserves, safeguard public assets, and identify opportunities for a systematic investment process. Priority is placed first on securing safety of principal and the liquidity needed for payroll and other City obligations, then on yield on the investment.

The City's Investment Policy is reviewed annually and is included with this report. Investment reports are provided at the close of each calendar quarter and include the market value of securities, source(s) of market valuation, and a statement confirming that current liquidity is adequate to meet expenditures for the next six months.

FINANCIAL IMPACT

There is no financial impact as a result of this recommended action.

RECOMMENDATION

Approve the Investment Policy as presented.

Respectfully submitted,

Lisa Goldman
Deputy City Manager

LG:dl
Exhibit 1 – Investment Policy

INVESTMENT POLICY

I. STATEMENT OF PURPOSE

It shall be the investment policy of the City of Alameda that all funds not required for immediate budgeted expenditures be invested in compliance with this statement as well as applicable federal and state legislation.

Safeguards will be set into place to insure that adequate reserves are established and maintained to provide that cash in sufficient amounts will be available for those immediate expenditures as authorized by the City's budget. Funds so maintained will be deposited in a manner best serving the City.

It will be further recognized that the City has a responsibility to insure the security of its assets and always maintain a level of quality so that the public at large will have the highest confidence that its best interests are being served.

The purpose of this document is to identify various policies and procedures that enhance opportunities for a systematic investment process. The initial step toward a prudent investment policy is to organize and formalize investment related activities. Related activities, which comprise good cash management, include accurate cash projection, the expeditious collection of revenue, the control of disbursements, cost effective banking relations, and a short-term borrowing program which coordinates working capital requirements and investment opportunity. In concert with these requirements are the many facets of an appropriate and secure short-term investment program.

II. SCOPE

It is intended that this policy cover all short-term operating funds and investment activities under the direct authority of the City. These funds are described in the most current annual financial report and include:

- General Fund
- Capital Projects Fund
- Special Revenue Fund
- Enterprise Fund
- Internal Service Funds
- Fiduciary Funds
- Redevelopment Agency Funds

This investment policy applies to all transactions involving the financial assets and related activities of the foregoing funds.

III. OBJECTIVES

- A. Safety: Safety of principal is the foremost objective of the City, followed by liquidity and yield. Each investment transaction shall seek to first insure that capital losses are avoided, whether they are from securities default or erosion of market value.

Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.

- B. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that the City is able to issue short-term notes to meet its operating requirements. Emphasis will be on marketable securities with low sensitivity to market risk.

- C. Yield: The investment portfolio shall be designed to attain a market average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restricts the placement of short term funds.

- D. The investment portfolio shall be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institution.

- E. The City shall adhere to the guidance provided by the "prudent investor rule", which obligates a fiduciary to insure that:

"...investment shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment considering the probable safety of their capital as well as the probable income to be derived."

- F. All participants in the investment process shall act reasonably as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public scrutiny and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Nevertheless, in a diversified portfolio, it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio investment return, provided that adequate diversification has been implemented.

- G. Investments are to be made that will bear in mind the responsibility of city government to its citizens. Investments which encourage the betterment of the human condition will be sought. Alternative investments which enhance the quality of life will be given full consideration. Investments which serve to only enrich a few to the detriment of the people will be strictly avoided.

- H. No investment is to be made in a company that receives more than 15% of gross revenues from the production or manufacture of cigarettes, alcohol, or gambling products.

IV. DELEGATION OF AUTHORITY

Article V of the Charter of the City of Alameda places sole custody of the City's funds with the Treasurer. Further, Section 53636 of the Government Code of the State of California provides that money on deposit is deemed to be in the treasury of the City.

Although the responsibility for conducting the City's investment program resides with the Treasurer, the day to day investment function is hereby delegated to the Finance Director who shall establish written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority for all investment activities.

This procedure is attached hereto and marked as Attachment "A".

V. INVESTMENT ADVISORY COMMITTEE

An Investment Advisory Committee has been formed for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the City Council. The advisory committee shall consist of the City Treasurer, Finance Director (as representative of the City Manager) and the Investment Officer.

The Investment Advisory Committee will meet as needed or as market or economic condition changes to determine general strategies and to monitor results. The committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the City's funds, approval of authorized financial institutions, and the target rate of return on investment portfolio. The written investment procedures shall be approved by the investment advisory committee on an annual basis.

Quarterly: The Finance Director with the concurrence of the Treasurer shall submit a quarterly investment report to the City Council. This report will describe all investment transactions during the quarter, compute average yield and average life of the portfolio as well as all required elements of the quarterly report as prescribed by Government Code Section 53646.

VI. INVESTMENT INSTRUMENTS

Investment instruments authorized for purchase include:

- A. United States treasury bills or certificate of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- B. Insured or collateralized certificates of deposit issued by a nationally or state chartered bank or state or federal association. In accordance with California statutes, City deposits including collateralized certificates of deposit shall not exceed the total paid-up capital (to include capital notes and indentures) and surplus of any depository bank, or the total of the net worth of any savings and loan association.
- C. Prime bankers acceptances with maturities less than one hundred eighty days, which are

eligible for purchase by the Federal Reserve System, and are issued by the top fifty banks in the world, or any qualified depository in the State of California. Purchases from any one bank may not exceed thirty percent of the City's investment portfolio.

- D. Securities of government agencies such as the Federal Home Loan Bank, Federal Farm Credit and Federal National Mortgage Association, a maximum of 25% per issuer, and a maximum of 75% in total.
- E. Prime commercial paper with A1/PI rating as provided for by a nationally recognized statistical-rating organization (NRSRO). Purchases of commercial paper may not exceed 270 days maturity and no more than 25% of the City of Alameda's portfolio.
- F. Medium term corporate notes with a maximum maturity of five years issued by corporation doing business in the United States which are rated "A" or its equivalent or better by one or more of the following national rating: Moody's, Standard and Poor's, Fitch's or Keefe's. Investment in medium term corporate notes shall not exceed 30% of the City of Alameda's portfolio.
- G. State of California Local Agency Investment Fund.
- H. County Agency Investment Funds, a maximum of 15%.
- I. Repurchase Agreements.
- J. Domestic money market mutual funds registered with the Federal Securities and Exchange Commission (SEC) and which are rated in the highest rating category by a nationally recognized rating service or which only invest in:
 - a) U.S. Government or federal agency securities and repurchase agreement,
 - b) other investment instruments specifically included in the local investment policy, or
 - c) tax exempt obligations.
- K. Other instruments as authorized under Section 53601 and 53634 of the Government Code.
- L. California Asset Management Program (CAMP).
- M. Negotiable Certificates of Deposit, a maximum of 30%.

VII. INVESTMENT TERMS AND CONDITIONS

- A. The following terms and conditions shall apply to the use of repurchase agreements:
 - 1. Securities purchased under the repurchase agreement shall be limited to the securities and qualifications listed above.

2. Securities shall be marked-to-market, and shall be maintained at a value equal to or greater than the cash investment.
 3. The market value of the securities that underlay a repurchase agreement shall be valued at 102%.
 4. All securities under a repurchase agreement shall be held by a third party custodian or safekeeping agent. Transfer of underlying securities to a counterparty bank's customer book entry account may be used for book entry delivery, and a counterparty bank's trust department or safekeeping department may also be used for physical delivery of the underlying security.
 5. The seller of repurchase securities shall not be entitled to substitute securities, except as authorized by the City. New or substitute securities should be reasonably identical to the original securities in terms of maturity, yield, quality and liquidity.
 6. As soon as possible, a master purchase agreement will be executed between the City and all trading partners.
- B. The following terms and conditions shall apply to the use of commercial paper:
1. Maturities shall be limited to two hundred seventy days or less.
 2. Purchase must be of the highest letter and numerical rating as provided for by Moody's or Standard and Poor's or Fitch Financial Services, Inc.
 3. Purchases must be limited to corporations organized and operating within the United States, and as a practical matter generally only those corporations operating within the State of California, having total assets in excess of five hundred million dollars, and having an "A" or higher rating for the issuer's debentures, other than commercial paper (as-provided by Moody's or Standard and Poor's rating services).
 4. Purchase may not represent more than ten percent of the outstanding paper of an issuing corporation.
- C. The following terms and conditions shall apply to the use of negotiable certificates of deposit:
1. Certificates with maturities greater than six months through one year have an "A" rating or its equivalent or better as provided for by one of the four following national rating services: Moody's, Standard and Poor's, Fitch's or Keefe's.
 2. Certificates with maturities greater than one year and through four years shall have an "AA" or its equivalent, or higher rating from one or more of the four following national rating services: Moody's, Standard and Poor's, Fitch's or Keefe's.

D. The following terms and conditions shall apply to the use of medium term corporate notes:

If securities owned by the City are downgraded by either Moody's or S&P to a level below the quality required by this Investment Policy, it shall be the Agency's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

- a. If a security is downgraded two grades below the level required by the City, the security shall be sold immediately.
- b. If a security is downgraded one grade below the level required by this policy and matures within 6 months, the security will be held to maturity. The City Treasurer may determine to sell the security if it is determined that there is a probability of default prior to maturity.
- c. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the City Council.

VIII. PRUDENCE

The standard of prudence to be used by investment officers shall be the "prudent person rule", and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence will be relieved of personal liability for an individual security credit risk or market price changes, provided that deviations from expectations are reported on a timely fashion, and appropriate action is taken to control adverse developments.

IX. INTERNAL CONTROLS

The City Auditor will establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion, segregation of duties, separating transaction authority from accounting and recordkeeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies and code of ethical standards.

X. BANKS AND SECURITIES DEALERS

In selecting financial institutions for the deposit or investment of City funds, the Treasurer will consider the credit rating of the institutions. The Treasurer will continue to monitor financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested.

The Treasurer shall approve all financial institutions from whom securities are purchased.

XI. MATURITY

The City will not invest in instruments whose maturities exceed five years at the time of purchase.

It is the intent that investments shall be managed in such a way that any market price losses resulting from interest-rate volatility would be offset by coupon income and current income received from the overall portfolio during a twelve month period.

XII. DIVERSIFICATION

It is the policy of this City to diversify the investment portfolio in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The following strategies and constraints shall apply:

- A. Portfolio maturities will be staggered in a way that avoids undue concentration of assets in specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.
- B. Concern for liquidity shall be insured through practices that include covering the next vendor disbursement date and payroll date through maturing investments or United States Treasury bills.
- C. Risks of market price volatility shall be controlled through maturity and issuer diversification.

XIII. RISK TOLERANCE

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity.

- A. Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in high grade securities and by diversification.
- B. Market risk, defined as market value fluctuations due to overall changes in market price and rate, shall be mitigated by eliminating the need to sell securities prior to maturity and avoiding the purchase of long term security for the sole purpose of short term speculation.

XIV. OTHER CONSIDERATIONS

- A. All transactions will be executed on a delivery versus payment basis.
- B. Wire Transfers: Whenever possible pre-formatted wire transfers will be used to transfer funds to pre-authorized accounts.
- C. The City will not enter into reverse repurchase agreements, nor trade in options or future

contracts. However, the Investment Advisory Committee will review and make recommendations regarding the future use and application of these instruments.

- D. From time to time a competitive bid process, utilizing a minimum of three financial institutions deemed eligible by the Treasurer, will be used to place investment purchases.

The City shall transact business only with banks, savings and loans, and with brokers/dealers approved by the Investment Advisory Committee.

- E. In the event of an absence or replacement of the City's Investment Officer, the authority to invest in all maturities beyond six months shall be regulated by controls and restraining requirements and documented in written investment procedures.

In order to assist in identifying "qualified financial institutions" the Treasurer will forward copies of the City's Investment Policy to those financial institutions with which the City is interested in doing business and require written receipt of the policy.

- F. Safekeeping and Custody

Securities purchased from brokers/dealers shall be held in a third party custodian account, which the City has established for safekeeping. Said securities are to be held in the name of the City with the trustee executing investment transactions as directed by the appropriate City official.

Collateral for time deposit in savings and loans is to be held by the Federal Home Loan Bank. Collateral for time deposits in banks is to be held in the City's name in the bank trust department or by the Federal Reserve Bank.

- G. Confirmation

Receipts for confirmation of purchase of authorized securities must include trade date, pay value, maturity, rate, price, yield, settlement date, description of securities purchased, agency's name, and third party custodian information.

- H. Preference

Where all other factors are equal, as a final consideration the following preference will be given in order:

- a. Institutions principally located in the City
- b. Institutions principally located in the County
- c. Institutions principally located in the State
- d. Institutions principally located in the United States

I. Trust Agreements

The City shall direct the investment activities of trustees. Such direction shall be in keeping with the terms and condition of its trust agreements, applicable law and policies set forth in the Investment Policy. In addition to the acceptable investment instruments listed in Section VI, A thru K, bonds proceeds may be invested in:

- a. Shares in a trust established pursuant to the Government code, Title 1, Division 7 and Chapter 5, investing in securities permitted under Section 53635;
- b. Other investment instruments allowed by State law which comply with requirements imposed by bond insurance and rating agencies.

Certified by:

Kevin Kennedy
City Treasurer

Attachment

ATTACHMENT A
Matrix of Recommended Segregation of
Responsibilities of the Treasury Functions

Function		Responsibilities
1.	Authorization of investment transactions:	
	<ul style="list-style-type: none"> Format Investment Policy should be prepared by 	Treasurer*
	<ul style="list-style-type: none"> Submitted to 	Governing Body
	<ul style="list-style-type: none"> Reviewed investment transactions approved at the end of each quarter 	Treasurer
2.	Execution of Investment transactions***	Treasurer delegates to Controller and Supervising Accountant (Revenues)
3.	Timely recording of investment transactions:	
	<ul style="list-style-type: none"> Recording of investment transactions in the Treasurer's records 	Investment Officers (Supervising Accountant - Revenues)
	<ul style="list-style-type: none"> Recording of investment transactions in the accounting records 	Supervising Accountant (General Ledger)
4.	Verification of investment, i.e. match broker confirmation to treasurer's records	Treasurer or Supervising Accountant (Revenues)
5.	Safeguarding of Assets and Records:	
	<ul style="list-style-type: none"> Reconciliation of Treasurer's records to the Accounting Records 	Supervising Accountant ** (General Ledger)
	<ul style="list-style-type: none"> Reconciliation of Treasurer's Records to bank statements and safekeeping records 	Supervising Accounting ** (General Ledger)
	<ul style="list-style-type: none"> Review of (a) financial institution's financial condition, (b) safety, liquidity, and potential yields of investment instruments, and (c) reputation and financial conditions of investment brokers 	Treasurer
	<ul style="list-style-type: none"> Treasurer's Vault 	Treasurer
	<ul style="list-style-type: none"> Periodic review of collateral should be performed 	Treasurer
6.	Management's periodic review of the investment portfolio as prepared by the Treasurer – key areas that should be reviewed are investment types, purchase price, market values, maturity dates and investment yields as well as conformance to stated investment policy. All transactions, excluding purchases of certificates of deposits, are on delivery versus payment basis to a third party.	Independently assigned reviewing authority.***

* With input from Controller via consultation

** This individual may be an Assistant Finance Director or Supervising Accountant

*** Personnel assigned to this task should have the capabilities commensurate with the responsibilities. This position requires knowledge of investments and familiarity with the formal Investment Policy.